

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7155

BILL NUMBER: SB 176

DATE PREPARED: Feb 8, 2001

BILL AMENDED: Feb 8, 2001

SUBJECT: Local Rainy Day Funds.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill allows a political subdivision to establish a rainy day fund. It provides that a rainy day fund established by a political subdivision consists of the unused and unencumbered balance that is: (1) remaining in a fund consisting of amounts raised by a general or special tax levy on all the taxable property of the political subdivision; and (2) transferred by the political subdivision to the political subdivision's rainy day fund. This bill also limits the amount that may be transferred to the rainy day fund to not more than 10% of the political subdivision's budget for that fiscal year.

Effective Date: July 1, 2001.

Explanation of State Expenditures: If a unit deposits money into the Local Rainy Day Fund that would otherwise revert to the unit's general fund, then the reduction in the tax levy that may have taken place in the following year would not take place. See: *Explanation of Local Revenues*.

The State pays a 20% property tax replacement credit on local General Fund levies. The credit is paid from the Property Tax Replacement Fund which is supplemented by the State General Fund. This proposal could increase the amount that the State pays for the credit.

The State fiscal impact will be dependent on the actions of each individual unit and would be different for each unit under this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) As amended, a unit, in a given fiscal year, may only transfer not

more than ten percent of the unit's total budget in that fiscal year to the rainy day fund. Under current law, an unused and unencumbered balance in any local unit fund, except township funds used for redemption of poor relief obligations, would be transferred to the general fund of that unit. One of two things generally happen:

- 1) The unit's levy for the next year is reduced by part of the cash on hand balance that would include the unused money; or
- 2) The unit may try to spend the money on whatever it legally can so that the money won't be lost.

Under this proposal, a unit would be allowed to keep a balance on hand in the Local Rainy Day fund without having to "spend it or lose it". There would be no limit on the amount that could be transferred into or held in the Rainy Day Fund during any one year. The following is a breakdown of 2000 operating fund levies:

Unit Type	2000 Operating Levy
Counties	\$900,248,147
Townships	\$117,270,237
Cities & Towns	\$839,928,789
Schools	\$2,530,184,567
Libraries	\$155,747,832
Special Units	\$278,710,531
TOTAL	\$4,822,090,103

If a unit deposits money into the Rainy Day fund that would otherwise revert to the general fund, then the reduction in the tax levy that may have taken place in the following year under a reversion would not take place. This could keep the tax rate from being kept as low as possible.

However, if a unit deposits money into the Rainy Day Fund that would otherwise be spent on noncrucial items, the unit may be able to use this money during troubling financial times without bonding or seeking other levy increases, thereby saving tax dollars and keeping future rates down.

Ultimately, the fiscal impact will be dependent on the actions of each individual unit and would be different for each unit under this proposal.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: All local units and schools.

Information Sources: Local Government Database.